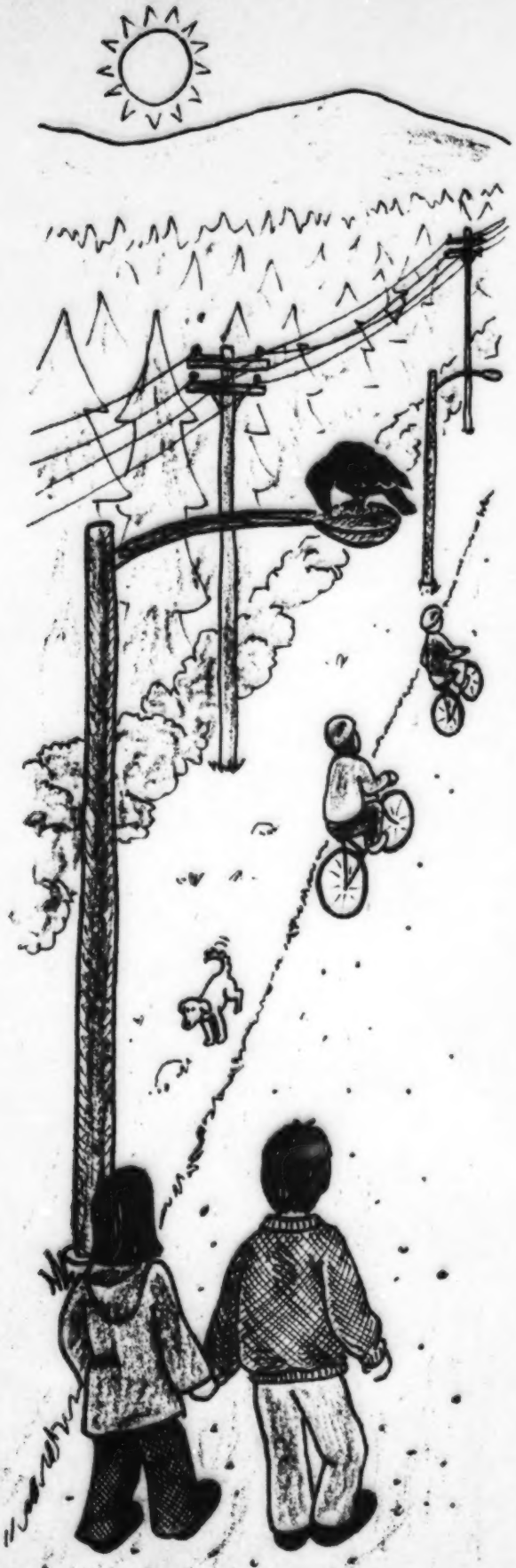

RATE STABILIZATION FUND

Cabinet Commission on Energy

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Government
Cabinet Commission on Energy

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Rate Stabilization Fund

Introduction

Electrical power rates in the Yukon have demonstrated significant instability during the past decade. Yukon consumers have been exposed to cost instabilities caused by fluctuating local market conditions such as industrial mine loads, diesel fuel prices, and climatic conditions such as temperature and water availability for hydroelectric generation.

The rate regulation process has also accentuated this instability through the imposition of various rate riders, introduction of rate design changes, short recovery periods for revenue collection, and movement towards the elimination of cross-subsidies between customer classes. Impacts on consumer bills have varied due to resulting changes in rates as well as changes in monthly energy consumption.

Few other jurisdictions have had greater electricity rate instability over the last decade than the Yukon. Our electrical system suffers from relatively high levels of unpredictability in both supply and demand. The supply and demand imbalances, combined with the isolation of the grid from neighbouring jurisdictions, have lead to unstable electricity rates. Although there are higher residential electricity bills elsewhere, public concern over power bills is increased in the Yukon because of greater price uncertainty in recent years. Yukoners have indicated they are fed up with the up-and-down nature of electrical rates.

Previous consultations on rate relief have identified rate stability as a primary concern. Yukon ratepayers want a long-term solution to erratic rates rather than short-term "band-aid" type subsidies that offer no protection over the long term. Although relief from full energy costs is generally viewed as undesirable from an efficiency and conservation perspective, its application can be designed in such a way that consumers receive price signals that will encourage conservation and the efficient use of energy. In addition to discussions on this proposed Rate Stabilization Fund, the Energy Commission will be consulting on options to provide targeted relief to those most in need, and to focus on longer term efforts to stabilize the cost of electricity.

Purpose of a Rate Stabilization Fund

A Rate Stabilization Fund would be designed to improve the stability and affordability of electricity rates. Rate stability can be interpreted as rates having only relatively modest changes over time. For the majority of ratepayers, price stability is a key component of affordability.

A Rate Stabilization Fund could be designed to smooth out the impact of rate changes required to reflect adjustments in utility costs or revenue recovery. It can also provide consumers with the ability to predict short-term electricity budgets

with some certainty. Another option is its potential use to phase-in the impact of removing long-standing cross-subsidies among customer classes.

A practical difficulty associated with stabilization funds is developing reliable forecasts of likely fund requirements to deal with specific contingencies. Another is obtaining approvals if higher rates are required to build up such funds for future use.

The termination of the existing rate relief program at the end of April 1998 will have the effect of increasing electrical bills for many residential consumers. At the same time, the closure of the Anvil Range mine will result in electrical rate increases for all ratepayers.

Proposed Rate Stabilization Fund

The Yukon government is committed to addressing the immediate concerns regarding proposed electricity cost increases, as well as the long-term issues of stability and affordability.

The Yukon Energy Corporation (YEC) has indicated that it expects to file an application with the Yukon Utilities Board (YUB) for higher rates effective in June 1998 as a result of the Anvil Range mine closure. The proposed Rate Stabilization Fund could be established to mitigate the adjustment problem for ratepayers by limiting the 1998 increase in electricity costs faced by non-government residential ratepayers currently eligible for rate relief, to a maximum of 9%, with no increases in the 3 years after the initial adjustment.

The Yukon government believes that a double-digit increase to electricity bills would be too onerous on Yukon people during difficult economic circumstances. Limiting the change in electricity bills to 9% and holding them at that level will ease the sting of electrical costs for consumers who currently receive the benefit of the Yukon government's rate relief program.

The 9% increase limit would be measured against a base bill of $97.12 for 1000 kWh. This was the amount paid for 1000 kWh during 1996 and in January 1997 when the Anvil Range mine was in full operation, before application of the Appeal Rider and the Fuel Adjustment Rider. This would mean that a non-government residential ratepayer, currently eligible for rate relief, using 1000 kWh per month would pay $105.87 per month starting in June 1998. When compared to bills based on current rates ($100.47), this equates to a 5.4% increase.

To provide this level of stability to bills for non-government residential customers currently eligible for rate relief, assistance required from a Rate Stabilization Fund is estimated to be $9 - $10 million over the next 4 years.

Extraordinary measures may not be required to mitigate the anticipated rate increases for non-residential ratepayers. In 1996, commercial consumers and municipal governments benefited from rate decreases. The rate increase proposed for June 1998 is anticipated to be within an affordable range for these customer classes. For reasons of fairness and broad public support, an effective Rate Stabilization Fund could be designed to operate, for these consumers, for rate changes over a specified threshold. This would require either additional funding for the proposed Rate Stabilization Fund or a different allocation of the $9 - $10 million among customer classes.

Long-term stabilization requires that electricity costs paid by consumers move to a sustainable level without being adversely affected by the fluctuation of major loads on the electrical system. The proposed Rate Stabilization Fund achieves "bill" stability (i.e., total costs paid by consumers are stabilized rather than the electrical rate charged) as a first step towards a steady state where subsidization of electricity is no longer required. At this stage, the money can be used for other purposes such as improving the quality of service from the publicly-owned utility or developing energy supply options for the territory.

A properly designed and operated Rate Stabilization Fund could be used to permanently replace the existing rate relief program and stabilize rates at affordable levels for the long term. The proposed Rate Stabilization Fund could be designed to soften the blow on ratepayers from all rate increases approved by the YUB.

It is proposed that the Rate Stabilization Fund be government controlled so that government can respond to public demand without delay and ensure this subsidization of electric power rates is accomplished outside the utility regulation process. The proposed Rate Stabilization Fund is designed to be a fluid, adaptable mechanism for government use to mitigate adverse impacts on the bills of customers of both Yukon Energy Corporation and Yukon Electrical Company Limited. Public accountability for how the Rate Stabilization Fund is used and maintained would remain the responsibility of the government.

Other measures

Additional measures can be developed to enhance the effectiveness of the Rate Stabilization Fund. Supply planning and well-managed energy management programs can be used in conjunction with the Rate Stabilization Fund to achieve long-term price stability. Currently, rate policy focuses on recovery of utility costs over a one or two-year period. A longer time horizon for rate planning than that typically involved in each rate application would help achieve stability. For example, performance-based rate regulation might be considered to allow longer periods between rate hearings. This would involve implementing regulatory mechanisms to share the cost savings achieved by utility management, while still ensuring that utilities remain publicly accountable.

Diesel Contingency Fund

The 1996/97 General Rate Application negotiated settlement agreement included provision for a Diesel Contingency Fund (DCF) to smooth electrical rate changes and offset utility diesel generation cost changes associated with fluctuations in hydro generation from long-term average capabilities. Extra diesel generation costs required in 1996 and 1997 due to below-average water availability were funded by withdrawals from the DCF. Diesel generation cost savings due to above-average water availability are deposited as additions to the DCF. The operation of this fund by the utilities is subject to regular reporting which is reviewed and approved by the YUB.

The DCF is the only customer-funded stabilization fund currently in existence. However, it is only meant to be used when there is a fluctuation in water availability affecting the cost of power generation. The DCF may result in stability but only with respect to changes in the use of diesel generation. Consumers are still left with the problem of severe rate instability with the fluctuation of major loads like the Faro mine.

Funding

It is proposed that the Rate Stabilization Fund could be initially financed using contributions from the Yukon Development Corporation of funds previously used for rate relief, and the $2.2 million currently in the DCF. The DCF is not normally required when the Faro mine is not a customer and diesel generation is not on the margin under normal water flow conditions.

While the total amount currently used to fund rate relief ($1.5 million in 1997) could help start the Rate Stabilization Fund, consideration must be given to the ongoing funding requirements of this proposal. The need, scope and funding requirements of other initiatives such as targeted rate relief, the proposed Green Power Fund, and enhanced energy management programs must be reviewed in conjunction with the Rate Stabilization Fund to ensure that coordinated and comprehensive decisions can be made on funding arrangements.

Replenishment of the Rate Stabilization Fund could occur through delayed electrical rate reductions associated with any reopening of the Faro mine, or the addition of other large loads, and possibly from any recovery of debt from the Anvil Range mine by the Yukon Energy Corporation after finalization of 1997 and 1998 rates.

Another issue to be resolved in developing the parameters of the Rate Stabilization Fund is whether to impose a cap, or maximum limit. This cap would assist the utilities in their long-term financial planning and balancing their resources between the Rate Stabilization Fund and other uses, such as their capital programs.

The Yukon government wants to act with the benefit of public input and in cooperation with stakeholders and the utilities to establish a comprehensive and effective Rate Stabilization Fund. To provide timely protection for consumers, this must be done concurrently with the finalization of 1997 and 1998 electrical rates by the Yukon Utilities Board. The government remains committed to participating in the YUB proceedings on behalf of all ratepayers.

The Energy Commission is seeking public input on the idea of the Rate Stabilization Fund and specific feedback on the operation of such a program. Please take a moment to give us your answers to the following questions. Your responses will provide the Government with valuable information on the proposed development of a Rate Stabilization Fund.